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Export and Investment Promotion in Egypt and Morocco:

A Review of USAID Experience

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FOREWORD

Recent economic literature strongly suggests that outward-oriented economies with sound trade, investment, and export systems have achieved better development results than have inward-oriented economies. The U.S. Agency for International Development (USAID) has devoted substantial resources to supporting outward-oriented growth through projects focused on export and investment promotion. Two key questions face donors: Is export and investment promotion assistance worthwhile? Does it merit continued USAID support?

The USAID Center for Development Information and Evaluation (CDIE) has conducted a worldwide assessment of USAID's experience with export and investment promotion services to evaluate the contribution of intermediaries providing services to exporters in developing countries. CDIE's assessment is based on surveys of exporters in seven countries, on extensive interviews with service providers, and on other sources. The services examined include those provided directly to exporters or investors: information (e.g., about foreign markets), contact making (e.g., with buyers), deal making, technical assistance, and government facilitation. Issues analyzed include the rationale for donor intervention; the impact of interventions on exports, jobs, and the market for support services; the return on USAID's investment; service strategies; and characteristics of effective service providers.

The CDIE assessment focused initially on export and investment promotion projects in the Latin America and the Caribbean region. A desk review examining 15 projects resulted in a report, *Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean*, A.I.D. Evaluation Special Study No. 69. CDIE followed up with field visits in Guatemala, the Dominican Republic, Costa Rica, and Chile, culminating in a synthesis report, *Export and Investment Promotion: Sustainability and Effective Service Delivery*, A.I.D. Program and Operations Assessment Report No. 2. In 1991, CDIE initiated fieldwork in Asia, examining programs in India, Indonesia, Korea, and Thailand. In addition, CDIE completed two crosscutting technical reports, *Service Use and Its Impact on Export Performance: Results of the Asia Survey*, A.I.D. Technical Report No. 18 and *Measuring the Costs and Benefits of Export Promotion Projects: Findings From A.I.D. Experience*, A.I.D. Technical Report No. 14.

To complement these studies, CDIE undertook this desk review of USAID's export and investment promotion projects in the Near East region. The recently published program assessment report, *Export and Investment Promotion Services: Do They Work?*, Program and Operations Assessment Report No. 6, draws on technical reports from each of these studies to present key findings, conclusions, and management implications of the worldwide assessment.

SUMMARY

This report synthesizes U.S. Agency for International Development (USAID) export and investment promotion experience in Egypt and Morocco in the 1980s. The report is based on a desk review of USAID project documentation and examines the underlying assumptions of project design, the types of institutions used, and the impact of USAID interventions. Where possible, comparisons are made between the two countries; however, comparability is somewhat limited because USAID/Egypt pursued primarily a strategy of investment promotion, whereas USAID/Morocco sought mainly to promote exports.

The key conclusions reported include the following:

- Egypt's dismal policy environment for both investment and trade was one of the main reasons why USAID interventions failed to promote foreign investment. In contrast, Morocco's significant policy reforms liberalizing trade created an environment in which USAID interventions increased exports at the firm level. The performance of export and investment promotion projects appears to be closely linked to a country's economic policy regime. Thus, USAID should not pursue export or investment promotion in an unfavorable policy environment. In cases where the policy environment is not favorable, encouragement of trade-related policy reforms might be more appropriate.

- USAID/Morocco's export promotion efforts were strengthened by its thorough examination of the services-provider market that existed during project design. Because it did not conduct a similar examination, USAID/Egypt failed to identify the key constraints to investment. Such an examination not only tests the validity of project design assumptions, it also identifies the institutional framework through which USAID interventions might be most effective (i.e., public or private sector intermediaries). Before starting any intervention, USAID should assess whether there is sufficient market failure in the existing service-provider market to justify donor subsidies. If the private sector service market is functioning well, there is no need for donor intervention.

- In both countries, USAID experience in working through public sector intermediaries was unsatisfactory, and projects were redesigned to use private sector intermediaries instead. Although the evidence is not yet conclusive, USAID's experience in working with private service providers seems to have been more positive. Hence, in general, USAID should consider working through private sector providers rather than through public sector institutions.

- Evaluators found USAID's investment promotion efforts in Egypt were not cost-effective. On the other hand, some USAID export promotion efforts in Morocco (made through the Trade and Investment Services (TIS) project) appear to be quite cost-effective. Measuring cost-effectiveness of USAID investment and export promotion efforts is an important component of project monitoring and evaluation.

- Evaluators of USAID interventions in Morocco identified impact in some sectors, as well as on a micro-, firm-specific level. Nevertheless, they could not identify a discernable impact at the national level. Evaluators did not measure the national or sectoral impact of USAID/Egypt's program, although project results were found to be minimal. Preliminary indications are that USAID/Morocco's TIS project strategy appears to have great potential for development impact. Hence, USAID should consider applying elements of the TIS approach to its export and investment promotion interventions.

- Data collection and impact measurement were insufficient, particularly in the USAID/Egypt program. Adequate data collection includes gathering baseline information as well as life-of-project data. Adequate data measurement includes selecting indicators and measuring project activities as well as bottom-line development impact. In order to produce more accurate and relevant evaluation results, USAID should ensure adequate data collection and identify appropriate indicators that measure impact.

GLOSSARY

BMCE	-	Banque Marocaine du Commerce Exterieur
CDIE	-	Center for Development Information and Evaluation, USAID
CIP	-	Commodity Import Program
CMPE	-	Morocco Center for Export Promotion
GAFI	-	General Authority for Investment and Free Zones (Egypt's investment promotion agency)
GATT	-	General Agreement on Tariffs and Trade
GDP	-	gross domestic product
IESC	-	International Executive Services Corps
JBC	-	Joint Business Council
PSEPP	-	Private Sector Export Promotion project
PSFS	-	Private Sector Feasibility Studies project
SMAEX	-	Societe Marocaine d' Assurance al' Expertative (Moroccan Export Credit Insurance Company)
TIS	-	Trade and Investment Services
USAID	-	U.S. Agency for International Development
USIPO	-	United States Investment Promotion Office
VE	-	Volunteer Executive program

1. INTRODUCTION

This report examines U.S. Agency for International Development (USAID) export and investment promotion efforts in the Near East region during the last decade. Egypt and Morocco were chosen as case studies for several reasons. First, Egypt is the largest USAID program in the Near East region and represents the greatest USAID expenditures on investment promotion in the region. Second, at the initiation of this study, both Egypt and Morocco had export and investment promotion projects nearing completion, which provided a wider range of project documentation (e.g., Project Papers, evaluations) from which to draw upon than was available for similar Agency activities elsewhere in the region. Finally, USAID's differing strategies for export and investment promotion in Egypt and Morocco provide an opportunity to interestingly compare and contrast both project approach and result. (See also Appendix A for a discussion of the methodology used for this desk study and Appendix B for a review of USAID documentation used).

The report includes five sections. Section 2 analyzes and provides background information on USAID's investment promotion efforts in Egypt over the last decade, and Section 3 similarly analyzes USAID's export promotion activities in Morocco. The sections begin with a brief description of the country's economy to provide the reader the context in which USAID interventions take place. Table 1 shows trends in exports and foreign investment for both countries for 1980-1992.

Section 4 presents general findings and conclusions from a comparison of the two country programs that are relevant to future USAID export and investment promotion interventions. These findings are elucidated through the following questions:

- What were the major assumptions of USAID project planners concerning the export and investment policy climate in Egypt and Morocco? Were these assumptions accurate?

- What was assumed about the export and investment service provider markets existing prior to project design?

- What institution(s) did project planners attempt to work through to meet their objectives?

Table 1 Egypt and Morocco
Trade and Investment Trends, 1980-1992

A. Direct Foreign Investment
(1987 $ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total direct foreign investment net inflow													
Egypt	755	947	1,056	1,108	1,401	1,365	1,316	869	936	114	120	120	na
Morocco	124	75	95	53	52	21	1	60	82	154	146	272	na
U.S. foreign investment net inflow*													
Egypt	-10	54	166	227	138	399	-103	-151	-82	39	-262	-8	-270
Morocco	na	0	2	16	2	0	-20	6	-2	10	11	7	8

*Total U.S. Capital Outflows to U.S. Affiliates in Egypt and Morocco
Source: IBRD Stars and U.S. Department of Commerce

B. Export Performance
(1987 $ million)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Value of all merchandise exports													
Egypt	4,248	4,097	3,723	3,687	3,450	1,947	2,285	2,037	2,041	2,440	2,281	3,106	2,524
Morocco	3,352	2,941	2,457	2,365	2,387	2,294	2,505	2,807	3,489	3,075	3,738	3,631	3,295
Value of manufactured exports to OECD													
Egypt	423	324	350	334	438	379	388	574	577	686	841	771	na
Morocco	629	511	642	687	752	733	942	1,311	1,541	1,613	2,191	2,114	na

Sources: IMF, International Financial Statistics; and OECD, Foreign Trade
Note: U.S. GDP deflator used to convert to 1987 Dollars

- What measures were used for tracking program performance? Were they sufficient?

- Have USAID's interventions in Egypt and Morocco been cost-effective?

- Do more successful interventions suggest a preferred strategy?

Section 5 pulls together lessons emerging from this desk study.

2. EGYPT

Egypt's Economic Context

Egypt's economy is heavily dominated by government. Egypt formally adopted a socialist model in 1952, although a large government role in economic activity was evident long before then. Much of the private sector was nationalized during the 1950s, and for the last several decades the public sector has generated about two-thirds of nonagricultural gross domestic product (GDP). A 1991 World Bank report is succinct:

> The economy is characterized by massive resource misallocation, stemming from a legacy of state intervention, ownership, monopolization, and central planning. The incentive system is highly distorted, reflecting a multitude of price, foreign exchange, and trade controls. Factor markets have also been subjected to heavy state intervention. Competition is restricted both in domestic markets and externally, compounding economic inefficiencies. Accumulating distortions, inefficiencies, and imbalances have resulted in slow and unsustainable growth.

The Government's dominance extends beyond the absolute size of the public sector to include regulations and prohibitions that limit the scope for market forces and private initiatives in the rest of the economy. Egyptian businesses need government approval for all investment decisions, for imports of materials or machinery, for exports, and for any work force reductions.

Such intense government involvement has produced rapid economic growth, at least as conventionally measured. GDP growth averaged 7.3 percent between 1965 and 1980 and 5 percent during the 1980s—one of the highest rates in the developing world. The GDP growth rate fell sharply, however, to 1.3 percent during the 1989-1993 period. Nevertheless, the distortions in the economy and insulation from world prices may have artificially overstated actual economic performance substantially.

The private sector faces unusually severe constraints in Egypt because of the overwhelming weight of and frequent changes in government controls. In a 1991 survey by the World Bank, Egyptian business people reported *government* *policy uncertainty* as their largest problem, claiming it outranked most of the usual obstacles by wide margins (World Bank 1992). For example, the requirement for government approval for expansion of plant capacity or for changes in product mix has significantly impeded firms from responding to market opportunities. Other impediments make the private sector much more of an agent of government than a collection of independent economic agents. Even the capacity of firms (e.g., vegetable exporters) to establish private associations is severely limited. The Government's Ministry of Social Affairs is responsible for approving the creation of such organizations, for naming up to 10 members of the board of directors, for approving (or rejecting) persons named as managers, and for reviewing all meeting agendas, minutes, and budgets.

Although some efforts were made during the 1970s and 1980s to reduce the constraints on the private sector and to pursue an "open door" for investment (e.g., tax holidays, repatriation of profits), the breadth of such constraints as late as 1991 was so extensive that improvements clearly were only at the margin.

In 1991, the Government of Egypt initiated "far-reaching" macroeconomic and regulatory policy reforms to help increase competition and resource allocation in the economy. These reforms included the elimination of some investment licensing requirements, reduction of labor recruitment restrictions on private firms, and reduction of quantitative import and export restrictions. However, even with the 1991 incentives, the World Bank found that the Egyptian economy still contains a "formidable" array of disincentives to private sector investment and operations and frequently entails complex administrative processes and procedures (World Bank 1992, 4-5).

Total foreign direct investment inflows from all countries to Egypt declined sharply in the late 1980s from high levels in the early years of the decade (Table 1). The decline in U.S. investment inflows was much sharper, with net outflows from Egypt in every year but 1 between 1986 and 1992. The book value of nonpetroleum U.S. direct investment in Egypt fell in real terms from $1.23 billion in 1982 to $636 million in 1992, measured in constant dollars.

Exports of goods have played a small role in Egyptian development over the past four decades. Relative to the domestic Egyptian economy, exports have gradually declined, from about 11 percent of GDP in 1960 to about 6 percent in 1990. Because developing country exports rose steadily between 1960 and 1990, Egypt became a progressively smaller factor in world trade during most of the period. In 1954, Egypt was a significant exporter among developing countries, exporting more than South Korea, Taiwan, or Thailand. By 1990, each of these countries was exporting 10 to 30 times more than Egypt.

Egyptian trade policy has also been characterized by consistently heavy state involvement. The exchange rate has been frequently overvalued, so import licensing has been used as the prime device to control import levels. Historically, access to imports and to foreign exchange has favored public sector enterprises.

In the early 1990s, Egypt began to dismantle restrictions on trade. The Government adjusted the exchange rate to reflect market forces and broadened access to foreign exchange. It lessened requirements for import licenses and is gradually reducing tariffs, although tariffs remain high.

Finally, the unique political context of the USAID program in Egypt is highly relevant to understanding USAID's development efforts. Egypt's strategic and political importance to the U.S. goal of peace in the Middle East is demonstrated by the massive foreign aid provided to Egypt. Since the Camp David agreements in 1979, Egypt has remained the second largest recipient of U.S. aid, after Israel. This sensitive political relationship with Egypt, although not explicit in USAID project documentation, was certainly a factor in USAID decisions about what strategy to pursue over the past decade.

Review of USAID's Investment Promotion Efforts in Egypt

Introduction

This section summarizes two of USAID/Egypt's key projects aimed at promoting investment during the decade of the 1980s.[1] These projects are the Private Sector Feasibility Studies (PSFS) and the United States Investment Promotion Office (USIPO).

In 1979, USAID/Egypt created a private sector office within the Mission to carry out its new objective of developing the private sector. In the same year, the Mission designed the PSFS project to promote U.S. private sector investments and joint ventures in Egypt. The PSFS project was to produce sectoral studies to identify commercial opportunities, finance feasibility studies and visits by U.S. firms to Egypt, and strengthen the institutional capacity of the Egyptian Government to provide promotional services. PSFS results, after a decade, were found to be minimal.

In the early 1980s, USAID designed the USIPO project to facilitate U.S. private sector investment in Egypt. Unfortunately, existing documentation

[1]See Appendix A: Methodology, which explains why these projects were selected for review. See also Appendix C for summaries of projects.

provides little information on USIPO's objectives or specific activities. What is known is that USIPO, established in the early 1980s, failed to achieve any meaningful impact and in 1989 was completely redesigned to emphasize export promotion instead of investment.

The Private Sector Feasibility Studies Project

The PSFS project began in 1979 and was folded into USIPO during 1988-1989. It was completed in September 1991. The project was created to stimulate and promote U.S. private sector investment in productive sectors of the Egyptian economy and, in particular, to promote U.S. and Egyptian joint ventures (USAID/Egypt 1979, 6-7). USAID's interventions were initially geared to provide increased goods and services to the domestic economy and not necessarily to help the export sector (USAID/Egypt 1979, 15).

At first, USAID decided to implement the PSFS project through a public sector institution—the Government of Egypt's General Authority for Investment and Free Zones (GAFI). GAFI was to help promote investment through four activities: (1) sectoral studies to identify potential investment opportunities, (2) financial assistance to U.S. firms to reimburse their costs of conducting feasibility studies, (3) financial and logistical support to U.S. firms during reconnaissance visits to Egypt, and (4) assistance to strengthen the Egyptian Government's institutional capacity to promote investment through professional training of GAFI staff members.

USAID made several assumptions that provided the rationale for investment promotion efforts. First, USAID project planners, while acknowledging that the Egyptian economy might continue to present difficulties for U.S. investors, believed that the Government of Egypt's stated commitment to pursuing economic reform and an open investment climate would prevail. According to project planners, "now that it [the Egyptian economy] is open," USAID intervention could encourage U.S. investors who wanted to establish an early foothold in the country (USAID/Egypt 1979, 11). The implicit assumption that the will and capacity of the host government existed to achieve such reform led to the second assumption—that USAID's investment promotion efforts would best be implemented by working through and strengthening GAFI, the public sector institution charged with promoting investment in Egypt. Both assumptions proved inaccurate.

Despite continued government rhetoric to the contrary, the Government of Egypt's economic liberalization efforts never materialized in any substantial way during the 1980s. Throughout that time, however, USAID continued to base its rationale for investment promotion on the Government of Egypt's stated commitment to create an open investment climate. Not only did the original PSFS Project Paper make this assumption, but a Project Paper for a related investment promotion project (that also contributed USAID funds to GAFI)—the Business Support and Investment project—also shows that USAID still had high hopes for Egypt's business climate in 1983 (USAID/Egypt 1983). Although it acknowledged certain constraints, the 1983 Project Paper concluded that "the 1980s will present major opportunities for private sector growth" in Egypt. Again, USAID implicitly assumed that the Government of Egypt had (or at least was moving toward) an open economy[2] (USAID/Egypt 1983, Annex I, 82).

PSFS project evaluators stated in 1984 that the Government of Egypt "has indicated on a number of occasions its commitment to the open door policy. It would appear that continuous efforts are being made to streamline and improve investment procedures" (Peat, Marwick 1984, 26). Without presenting any evidence of actual changes in economic policy that could substantiate the Government of Egypt's rhetoric, the evaluators endorsed USAID's approach to promoting U.S. investment in Egypt.

Even though PSFS had produced no investments by 1984, evaluators "strongly recommend(ed)" extending the PSFS project for several reasons (USAID/Egypt 1985b, 3). First, the implementation of needed procedural changes and internal restructuring of GAFI were anticipated, based on the evaluators' recommendations to improve the management structure, streamline procedures related to handling investment applications, and more effectively target and market the program. Second, U.S. investors participating in the project had indicated that the financial incentives offered by the project were an important factor in their decisions to explore investment opportunities in Egypt. Finally, of the 32 GAFI-approved U.S. investment applications submitted under the project, 3 of the U.S. firms working with the project in 1984 were considered "likely" investors. However, the USAID evaluation concluded, "it remains unclear how many actual investments will be made" (USAID/Egypt 1985b, 3).

The 1984 PSFS evaluation neglected to identify a major constraint facing the project, namely that the Government of Egypt had not sufficiently reformed its economic policy to stimulate investment effectively. Instead, the evaluation recommended some restructuring and internal refinements to the project to overcome constraints.

A second assumption of the USAID/Egypt strategy—that the preferred intermediary was a public sector institution (i.e., GAFI)—also proved flawed. A

[2]Statements in the Project Paper, such as "in keeping with Egypt's Open Door policy ..." demonstrate this implicit assumption.

1984 project evaluation cites numerous difficulties encountered with GAFI, including insufficient management, a lack of understanding and support for project objectives, and significant delays. Compounding this, USAID experienced a lack of cooperation and inefficiencies in the Government of Egypt bureaucracy at large. Even the training component of the PSFS project met with difficulty. Although the project claimed it had completed training seven GAFI staff members, only two stayed on at GAFI and the others were transferred to other government departments (Peat, Marwick 1984, 2, 6-18).

During 1988-1989, because of poor performance and continuous problems in working with GAFI, USAID folded PSFS into USIPO—a private sector institution. Hence, almost a decade of experience led USAID to reject its goal of strengthening the host government institution charged with investment promotion and instead to turn to a private sector intermediary to move toward project goals.

A 1990 evaluation concluded that the PSFS project had achieved little. It found that over a 10-year period and after $5 million in expenditures, PSFS had conducted only 45 feasibility studies, which had produced only 4 or 5 implemented investment ventures: "The time, money and effort devoted to this initiative have far exceeded the results achieved" (Mathieson and Vickland 1990, 13; USAID/Egypt 1991a, 6).[3]

U.S. Investment Promotion Office

USAID established USIPO in 1981 through an agreement between the Government of Egypt, the Joint Business Council (JBC), and USAID. USIPO's objective was to help promote and facilitate new U.S. investments in Egypt—eventually on a self-sustaining basis. USIPO aimed to meet the dual goal of strengthening private sector efforts to attract U.S. investment to Egypt and diversifying sources of productive capital. USAID's intervention under USIPO was intended to create investment opportunities in the domestic market, as well as the market for export to regional markets (Mathieson and Vickland 1990, 7).

As an organization charged with promoting private U.S. investment in a developing country, USIPO was one of the first of its kind. At least in theory, USIPO had several characteristics that are thought to increase effectiveness in promoting investment, including using a private sector entity to implement investment promotion, keeping the entity small, and focusing primarily on transaction-oriented activities (Mathieson and Vickland 1990, 6-7). However, in

[3]Unfortunately, project documents fail to give the value or size of these "ventures."

practice, these unique characteristics were overshadowed by the fact that from 1981 to 1988, USIPO was used principally as a "support service" to GAFI. Dominance by this public sector entity resulted in USIPO becoming essentially a reactive organization supporting GAFI and the Government of Egypt's needs. Not until its independence from GAFI in 1988-1989 did USIPO begin to operate according to its design as a proactive organization with strategic plans, goals, and objectives (USAID/Egypt 1992, 1).

Between 1981 and 1988, the USIPO project had no identifiable quantitative targets for measuring project activities or impact (Mathieson and Vickland 1990, 6-10). In 1988-1989, both the PSFS and USIPO projects adopted similar sets of project targets. From its inception through 1989, USIPO had not achieved its original goal of stimulating U.S. investment in Egypt; project results were marginal.[4] Measuring project performance was difficult, first because there was so little project documentation and second because the documentation that was available failed to assess impact. However, project participants who were interviewed for the 1990 study "uniformly expressed the view that little was achieved," citing both the unfavorable policy climate and problems with project implementation as the reasons for poor project performance (Mathieson and Vickland 1990, 9).

Like the PSFS project, the USIPO project based its rationale for donor intervention in Egypt on optimistic assumptions concerning the country's policy environment. Furthermore, project planners believed that improvements in Egypt's policy climate would occur during the life of the project and that these changes would provide greater access for private U.S. investments. It was assumed that policy improvements would open opportunities for American entrepreneurs to serve the large Egyptian market (56 million people) and to produce for export to regional markets. After nearly a decade, the evaluators found that "notwithstanding certain positive changes, this assumption has not been valid" (Mathieson and Vickland 1990, 7).

The 1990 evaluation placed most of the blame for USIPO's poor performance on the commercial policy environment, which contained factors beyond the scope and control of USIPO and USAID. These included heavy government interference in nearly all forms of commercial activity, inappropriate economic policies that made it difficult or impossible for new ventures to be viable, major bureaucratic barriers to approvals and operating businesses, outright

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[4]The 1990 evaluation identified two companies (American Standard and Pioneer) that had made investments by 1989, which were valued at a total of $21 million.

antipathy to the private sector, and overt preferences for state-owned enterprises. In 1990, state enterprises still accounted for more than two-thirds of Egypt's industrial production.

The 1990 evaluation also identified several shortcomings of the USIPO project itself, including the lack of clearly defined methods of approach, absence of specific strategic annual workplans, inexperienced personnel, internal staff rivalries, and the lack of promotional tools to provide active marketing and assistance to prospective investors. USIPO had since 1989 designed and implemented a series of management measures that had led to greater project clarity, accountability, and control. Investment promotion achievements, although limited, "were also found to have" improved since 1989.

Between 1989 and the completion of both projects in 1992, project performance for USIPO and PSFS (now under USIPO administration) appeared to improve. Quantitative performance targets for the two projects, which had been combined in 1989, were claimed equally as project outputs for both projects. At project closeout, project targets had essentially been met. The revised project plan called for two new investments, and three had apparently been consummated by 1992, although no monetary value is provided in the documentation.[5] Other project targets identified in 1989, such as quantity of reconnaissance visits conducted and feasibility studies completed, had been achieved and in some cases, exceeded (USAID/Egypt 1991b, 4; Mathieson and Vickland 1990, 13). However, the lesson of over a decade of experience in Egypt is to treat these indicators only as measurements of project activities—not as evidence of development impact.

In 1989, USAID decided that USIPO would shift its emphasis from investment to export promotion, given the hostile policy environment for

[5]Project documentation concerning achievement of project targets lacks sufficient detail and contains important discrepancies in data. The 1990 evaluation (Mathieson and Vickland 1990) and the 1991 Project Evaluation Summary (USAID/Egypt 1991b) cite only three "potential investments" and make no mention of the value or size of these potential investments. Only company affiliations are mentioned, including Heinz (tomato paste), H&H Enterprise (hotel management), and Biovet (veterinary medicine) (see Mathieson and Vickland 1990, 13). However, in the 1992 Project Completion Reports (USAID/Egypt 1992, 6; USAID/Egypt 1991, 7), there are no mentions of Biovet as an investor, whereas a company named Midamar is cited. Again no monetary values for investments are given.

investment and more hopeful opportunities in the export sector. At the completion of the project in 1992, USIPO's export promotion efforts had shown so much potential that USAID designed a $10 million follow-on project in February 1992 devoted strictly to export promotion (USAID/Egypt 1992, 1,6; Mathieson and Vickland 1990, 12-13).[6]

[6]Exceeding its target of assisting 3 firms to export, a restructured USIPO helped between 20 and 25 companies gain export contracts at trade fairs.

3. MOROCCO

Morocco's Economic Context

Economic policy in Morocco historically has fostered a wide scope for the operation of free markets, leaving only a limited role for government. By developing country standards, inflation has been low and exchange rates have been realistic. The major departure from a free market orientation was the steady increase in barriers to imports from 1957 to the early 1980s to promote import substitution in a wide range of domestic industries.

Morocco since 1965 has experienced relatively high rates of economic growth—5.7 percent per year between 1965 and 1980 and 4 percent per year during the 1980s. As in most developing countries, the size and scope of government in Morocco gradually expanded during the 1970s, financed partly by growing external international borrowing, which in turn led to debt. In the early 1980s, with the price collapse of Morocco's major export (phosphate), the country found itself with serious debt problems.

In 1982, the Moroccan Government embarked on an economic liberalization effort to end the country's relative isolation from the world economy and diversify exports. Over the next decade Morocco undertook a significant program to improve its competitiveness and economic efficiency by removing product pricing distortions, reducing the government deficit, and improving financial markets. Actions taken include the gradual dismantling of quantitative restrictions on imports, reduction and simplification of the several types of import taxes and other administrative controls, and devaluation of the exchange rate. In addition, prior to 1982, all imports required government licenses; by 1991 only 10 percent of imports required licenses. Tariffs also were steadily reduced after 1982. In 1987, Morocco joined the General Agreement on Tariffs and Trade (GATT), thus committing itself to permanently maintaining a liberal trade regime.

Morocco's policies to boost exports have paid off. Historically, phosphate and its derivatives have dominated Moroccan exports—accounting for half of all exports in 1980. Despite the collapse of phosphate prices after 1980, other products have emerged to fill the gap. Agribusiness products doubled their value between 1982 and 1992. Since 1985, growth of manufactured exports has been particularly sharp. In real terms, manufactured exports grew at an annual rate of

12 percent from 1965 to 1985, accelerating to 25 percent per year between 1985 and 1990. By 1990, manufactured exports accounted for more than one-half of total exports (see Table 1).

The Government of Morocco plans to continue the economic reform program, further liberalizing the exchange and trade system, with the goal of full external currency convertibility. This should help stimulate investment. Morocco already has one of the most liberal investment laws in Africa and has reduced the role of the state in its vibrant free enterprise system. Foreign direct investment showed a very sharp increase in 1992 and is likely to remain strong over the medium term (Ward and Beneville 1993, 3).

Review of USAID's Export Promotion Efforts in Morocco

Introduction

This section examines USAID/Morocco's principal project for promoting exports from 1986 to 1993—the Private Sector Export Promotion project (PSEPP) (see Appendix C). USAID considered the following approach essential for export promotion and economic growth in the Moroccan context:

- *Export Credit Insurance*. Expand coverage of export credit insurance to stimulate exports.

- *Export Prefinancing Credit*. Expand export prefinancing credit to include small and medium-sized firms and new users as a means of increasing export production.

- *Export and Investment Assistance*. Improve the export production and marketing capacity of beneficiary firms and improve the capacity of the public sector export promotion agency—the Morocco Center for Export Promotion (CMPE)—to service private exporters. A relatively modest investment promotion component was added in 1989 to encourage investment through joint ventures (USAID/Morocco 1986; USAID/Morocco 1989).

USAID/Morocco based the design for PSEPP on findings from various sources. First, USAID conducted numerous interviews with Moroccan exporters, bankers, and government officials. USAID also drew on detailed qualitative and quantitative analyses by consultants of existing export service providers and the constraints faced by exporters. USAID project planners reviewed earlier USAID private-sector projects in Morocco and elsewhere and examined relevant studies, such as those published by the U.S. Department of Commerce and the World Bank.[7] In short, project planners based their assumptions about PSEPP design on what they had learned about the deficiencies of the existing Moroccan export services sector, as well as the experience of USAID and other donors. The studies reviewed identified a number of constraints to export expansion, including conservative export financing procedures, export production problems, insufficient knowledge of overseas markets, and weaknesses in the export insurance program.

Each PSEPP subproject was based on the assumption that the Government of Morocco had the will and capacity to maintain economic reforms, and would not impede private sector export growth, and that Moroccan firms had the capacity to adapt to competitive export behavior (USAID/Morocco 1986, Annex A). These assumptions proved true.

Throughout the design and evaluations of PSEPP, USAID/Morocco emphasized the link between project success and the policy climate. PSEPP activities began in 1986—when the Government of Morocco was well into its economic reform program. USAID/Morocco waited to intervene in the policy area until after seeing concrete evidence of economic reform. The Project Paper explicitly affirmed the course of liberalization taken since 1983 by the Government of Morocco, claiming the country "has made a commitment to an export orientation, undertaking a series of official, monetary and institutional reforms to support an export-industry-led structural adjustment" (USAID/Morocco 1986, 79).

The importance the Mission placed on the policy environment is evident in the project documents. A 1989 supplement to the Project Paper reports that progress had been made toward a large majority of economic reform goals, resulting in an improved environment for exports (USAID/Morocco 1989, 2). Final project evaluations underscored the fact that the country's policy framework had improved during the life of the project (Ward and Beneville 1993; Rudel and Belot 1992).

The following sections discuss each project activity in detail, examine evaluation findings, and draw conclusions about the implementation and impact of PSEPP subproject activities. The PSEPP has been successful in meeting many project targets and in generating tangible exports and investments.

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[7]The breadth of research that project planners conducted can be gleaned from a view of the bibliography attached to the Project Paper, as well as from the level of detail and organization demonstrated in the project documentation.

Export Credit Insurance Subproject

In its analysis of the export service provider market that existed during the design of PSEPP, USAID found that the country's primary provider of financial services for international trade—a public sector entity operated by the Banque Marocaine du Commerce Exterieur (BMCE)—had not met the needs of the export community. USAID identified the need for expanding coverage of export credit insurance, particularly through an organization that was at least in part privately owned and managed.[8] In 1986, the Government of Morocco agreed to transfer its BMCE export credit insurance program to the USAID-sponsored Societe Marocaine d'Assurance a l'Exportation (SMAEX). Through the newly created SMAEX, USAID/Morocco set goals of expanding export credit insurance coverage from 5 percent of insurable (e.g., private) exports to 20 percent and stimulating exports worth $14 million.

Project design and evaluation documents identified the need for an organization, such as SMAEX, finding a consensus among banks and exporters for expansion of this type of service. To date, SMAEX has successfully established itself as an efficient privatized export credit insurance organization. More than 50 percent of SMAEX is privately owned, its insurance portfolio has approximately doubled, and its investments appear prudently and profitably managed (Ward and Beneville 1993, 5-11).

Although SMAEX has contributed to Morocco's expansion of exports, it is impossible to quantify the amount of exports attributable to increased export insurance coverage. By helping exporters to secure bank financing for credit sales overseas, SMAEX contributes indirectly to expanding exports (Ward and Beneville 1993). To date, SMAEX has insured approximately 6 percent of private exports. According to evaluators, the original target of 20 percent was unrealistic. SMAEX's level of coverage is a respectable achievement—5 to 10 percent is common in similar organizations elsewhere (Ward and Beneville 1993, i).

As a private sector entity SMAEX has had a greater impact than would have been the case had export insurance continued to be offered through the public sector BMCE. As an independent organization, SMAEX can work with the entire banking community, thereby reaching a larger spectrum of clients. Perhaps even more important is the increased financing available to exporters from all banks because of their ability to discount export-related commercial paper covered by SMAEX (Ward and Beneville 1993, 10-15).

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[8]Export credit insurance protects exporters and bankers against nonpayment by overseas buyers.

However, the SMAEX program has not yielded all the benefits expected from USAID support. SMAEX is the only supplier of export credit insurance in the country. This monopoly status and consequent lack of competition from other firms have limited its performance. For example, SMAEX has been slow to promote its services, is relatively passive in seeking clients and responding to their needs, has an overly centralized decision-making structure, and has done little to help its clients diversify into new markets. With improvements in these areas, SMAEX has the potential to play a key role in expanding the country's exports (Ward and Beneville 1993, 8-12).

Export Prefinancing Credit Subproject

In designing the export prefinancing credit component of PSEPP, USAID assessed the existing provider of prefinancing credit (in this case the central bank) and found that it functioned fairly well. However, USAID identified a distinct bias against small and medium-sized firms and those new to exporting. Hence, this project component was designed to meet the needs of these beneficiary groups. Project targets under this component were set as follows: (1) approximately 150 new users would obtain prefinancing credit, (2) an additional $30 million in export finance would be provided to the target group, and (3) approximately $100 million in additional exports would be generated.

By 1990, the subproject had addressed the inability of some small and medium-sized exporters to obtain financing. However, the prefinancing credit had minimal impact on equity levels of firms or in assisting small and medium-sized firms to increase productive capacity. Evaluators did not attempt to measure this subproject against the project target indicators mentioned above.

Export and Investment Assistance Subproject

Preliminary studies conducted by USAID/Morocco identified a need for technical assistance to exporters, particularly in meeting quality and quantity requirements of overseas buyers. This subproject was designed to lower the costs of production for project beneficiaries, to increase their export sales, and to expand their access to new buyers. The project would provide technical assistance in management and technical skills to 130 firms. In addition, USAID identified a need to improve the capacity of the public sector CMPE to service private exporters.

During the first years of project implementation, USAID found that CMPE was severely limited in its effectiveness because of a variety of "institutional constraints," including a lack of clear organizational structure, an inability to be transaction oriented, high staff turnover, and insufficient funding (USAID/Morocco 1989 3, 13; Borish et al 1990, 45-63, v). CMPE's relationship with the Government of Morocco had saddled it with heavy bureaucratic burdens, resulting in only a small percentage of CMPE's effort actually directed to export promotion. Moreover, USAID later identified a strong demand from the Moroccan export community for direct assistance in export development and venture stimulation. These factors led USAID planners in 1989 to drop the CMPE component of the project and add a new subproject activity called Trade and Investment Services (TIS).

Direct export assistance, as a component of PSEPP, has consisted of two separate activities, both implemented by the International Executive Services Corps (IESC). IESC is a U.S.-based private, nonprofit organization, which administers the Volunteer Executive (VE) program and TIS.

IESC's Volunteer Executive Subproject

Between 1986 and 1992, the VE program provided specialized technical assistance to Moroccan firms through its voluntary network of retired U.S. executives. During the life of the project, 100 volunteer executives worked with a large segment of the Moroccan industrial producers and exporters. Based on a sample survey of Moroccan firms assisted by the VE program, an estimated 40 of the 100 completed VE programs could be classified as successful[9] (Rudel and Belot 1992, 15).

The less-than-successful experience of some VE programs can be explained by inadequate preparation on the part of the beneficiary firm (e.g., insufficient guidelines for the volunteer executives or unrealistic expectations). However, for some VE programs poor management by IESC was also a factor (Rudel and Belot 1992, 31). Although the work of some IESC country directors was excellent, the work of others was deficient. Rudel and Belot (1992, 29-31) noted several areas requiring managerial improvements, including the process of selecting appropriate volunteer executives, the oversight of volunteers during project implementation and followup, and the maintenance of sufficient dialogue with the clients to address their concerns.

The literature indicates that evaluators had difficulty measuring quantitative performance of the VE program. IESC did not collect baseline and life-of-project data from the client firm in a way that made data easily accessible for analytical

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[9]Out of the 52 firms surveyed, 20 were judged successful, 17 partially successful, and 15 seriously deficient. (Some volunteers served more than one firm.)

purposes. In their attempts to collect these data from IESC-assisted clients, evaluators encountered strong resistance on the part of the firms to divulge this kind of information (Rudel and Belot 1992, 20).

Data from other sources were collected and statistical comparisons were made for 60 IESC-assisted firms and 10 assisted sectors from 1986 to 1990. In terms of their performance vis-a-vis their sector (measured in growth of production, exports, employment, and investment), IESC-assisted firms performed no better in the aggregate than unassisted firms. However, this lack of statistically verifiable impact does not prove there was no impact (Rudel and Belot 1992, 21, 56-57). The firms that sought help from IESC may have recognized that they were in difficulty and were losing market share. Also, the aggregation of firm data masks individual achievements. For example, a similar analysis for 10 IESC-assisted firms in 3 sectors that had been classified through survey results as "successful," found that improvements in production and export performance for food-and-textile-industry clients exceeded the average for the sector as a whole (Rudel and Belot 1992, 20-22, 56). The evaluators conclude that "successfully executed Volunteer Executive projects do contribute significantly to the client company's performance."

There are a few outstanding success stories in the VE program, some with large and direct benefits to the firms and indirect benefits to the economy. However, the effectiveness of the VE component overall is difficult to discern because impact at the national and sectoral level is not evident or statistically verifiable (Rudel and Belot 1992, 56-57).

Even so, it would be a mistake to assume that the project purpose—to improve the export production and marketing capacity of beneficiary firms—had not been met. Rather, with improvements in its managerial capacity, IESC remains the best intermediary to implement this kind of activity (Rudel and Belot 1992, 30-31).

IESC's Trade and Investment Services Subproject

The TIS project, which was also administered by IESC, was added to PSEPP in 1989 and was designed to provide a range of services to exporters, as well as to U.S. and Moroccan businesses considering joint or coventures. The project aims to create from one to three joint ventures and generate $2 to $4 million Moroccan exports.

The TIS project operates like an export marketing company, linking buyers and sellers and assisting in the entire export process. TIS began by identifying products with high export potential and then actively searching for willing buyers in the North American market and sellers in Morocco, bringing them together, and playing a facilitating role until the "deal was closed." Often this intervention meant that IESC/TIS staff facilitated communications between the companies and responded to telex requests from the marketing associates to resolve shipping, quality, or other problems. TIS screened Moroccan producers to find firms that were capable of becoming major suppliers for the U.S. market. Even these firms were tested through "trial" shipments. Proactive screening, selectivity, and dealmaking underpin the TIS approach.

TIS appears to be "among the most effective private sector export promotion efforts on record" (Rudel and Belot 1992, 32). In contrast to the difficulties of quantifying the impact of the VE program of PSEPP, TIS lends itself to more accurate and simple measurement. During the first 2 years of operation, TIS assisted 22 Moroccan companies in obtaining export orders to the U.S. market in the aggregate amount of $6.5 million (which would far exceed its target of $2 to $4 million). Preliminary indications are that TIS is cost-effective. In 1992, TIS operating costs were running 14 percent of export orders generated (Rudel and Belot 1992, 32-34).

From its inception, TIS took a targeted approach, concentrating its efforts on a limited number of product lines that seemed to hold the greatest export potential. Evidence suggests that TIS correctly identified exportable products. The export experience of the firms successfully assisted is relevant to the long-term impact of the program as well. Some TIS-assisted companies not only successfully exported initial orders, they also obtained increasing repeat orders—an indication of longer-term market penetration (e.g., olives, sardines, and oil).

The survey data suggest that the Moroccan producer believes the most important contributions of TIS are the contacts and referrals provided to them with U.S. importers/brokers and the credibility that Moroccan businesses derive from association with TIS.

However, concerning the investment promotion component of TIS, survey results found that TIS clients did not perceive that the project itself played a major role in the firms' investment decisions. Nonetheless, TIS did generate new investment by its clients. As of 1992, TIS was close to achieving two joint ventures and was working on a third (project targets were between one and three new ventures). One joint venture in the agroprocessing industry, when consummated, is estimated to generate $1.5 million in investment; the other, in olive production, will generate $3 million (Rudel and Belot 1992, 34).

It is interesting to note that TIS was initiated through an unsolicited proposal by IESC, emanating from an expressed desire within the Moroccan export community for such a program. Compared with USAID's USIPO project in Egypt, which did not proactively seek to work with specific firms, TIS staff have generated interest in project services, proactively seeking out buyers and sellers. TIS did not publicize its services, but rather, selectively sought clients.

4. COUNTRY COMPARISON AND GENERAL FINDINGS

This section highlights key findings and comparisons that emerged from the review of USAID's export and investment promotion efforts in Egypt and Morocco. The aim is to better understand when donor intervention is appropriate, what strategies should be used for intervention, and how USAID can improve project design and assess project impact.

As described previously, during the 1980s USAID/Egypt pursued investment promotion through two projects—USIPO and PSFS. USAID/Morocco chose a strategy of export promotion through PSEPP.

By focusing on a series of questions, this section examines the assumptions underlying project design, the types of institutions project implementors worked through, the impact of USAID interventions, and strategies for donor intervention. Whenever possible, comparisons and contrasts are made between USAID's experience in the two countries.

Question 1: What were the major assumptions of USAID project planners concerning the export and investment policy climate in the two countries?[10] *Were these assumptions accurate?*

USAID project planners in both Egypt and Morocco assumed that the economic policy environment was greatly improving and was opening many new opportunities for investment and trade. In Egypt, USAID planners assumed that the Government of Egypt's rhetoric indicating a move toward trade and investment liberalization was a satisfactory expression of "host government commitment" and indicated a favorable policy environment in the near future. USAID assumed that the trade and investment policy climate in Egypt would be favorable to meeting project goals. This is evident not only in documentation on initial project design, but also in subsequent project documents. However, a 1990 evaluation found that the principal reason for the lack of project impact (i.e.,

[10]Morocco documentation clearly specified project assumptions, whereas Egypt's did not. Thus, most USAID/Egypt assumptions are inferred. See Appendix B for further detail.

failure to generate significant foreign investment) was that "the business environment has not improved measurably as initially envisioned" (Mathieson and Vickland 1990, 1).

In contrast to the illusory policy change in Egypt, project planning in Morocco occurred in an environment in which the Government of Morocco had actively pursued and implemented extensive economic policy reform for 4 years before USAID project implementation. USAID/Morocco did not rely on official rhetoric. The Mission based project design on actual Government of Morocco implementation of economic policy reforms. Hence, USAID/Morocco's relatively successful export promotion project operated in a policy environment that was already favorable and that actually improved during the life of the project (Rudel and Belot 1992, 55).

Question 2: What was assumed about the existing export and investment service provider market prior to project design?

Project planners in both Egypt and Morocco assumed that investors and exporters faced significant constraints that were not being resolved by existing local service providers. In Morocco, USAID conducted detailed analyses of each existing service provider sector. For the USAID/Egypt program, however, USAID documents provide little detail about a local service provider market. The USAID project in Egypt chose to focus on U.S. investors and, at that time, U.S. investors in Egypt were "virtually non-existent" (USAID/Egypt 1979, 11). Project planners assumed that U.S. firms were not interested in investing in the Egyptian market because U.S. firms lacked vital investment and market information and because the costs of exploring opportunities were higher in Egypt than in other markets. As a result of the USAID subsidy, some investors did "look at the possibility of investing in Egypt," but an insignificant amount of actual investment occurred and only after many years. In short, the problem was not a lack of information, but a hostile policy environment. A thorough analysis of the market for investment may have brought this to light sooner.

Question 3: What institution(s) did project planners attempt to work through to meet their objectives?

USAID/Egypt's PSFS project clearly set out to strengthen public sector investment promotion institutions. After a decade of continued heavy statist intervention, a lack of host government support, and poor performance, USAID redesigned the PSFS project in 1989 to switch support from GAFI, an Egyptian Government institution, to the private USIPO.

USAID/Morocco's initial approach to export promotion was a mixture of support for private sector and public institutions. In the area of export credit insurance, USAID created a new organization, SMAEX, with private sector management and participation. However, the Morocco project also attempted to strengthen the principal Government of Morocco export promotion organization, CMPE. Because of the ineffectiveness of CMPE, USAID halted this approach in favor of direct private sector provision of services through the IESC-sponsored TIS.

Although working with private sector intermediaries, such as IESC or USIPO, has not been problem free, private sector participation in the administration of USAID-sponsored export and investment promotion projects has increased project effectiveness. Private sector intermediaries have had the flexibility, expertise, and decision-making autonomy to be more responsive to their clients. In contrast, host government institutional involvement undermined effectiveness (Rudel and Belot 1992, 29-31).

Question 4: Have USAID's interventions in Egypt and Morocco been cost-effective?

Although not all USAID subproject activities were evaluated for cost-effectiveness, overall USAID's investment promotion in Egypt was found to be not cost-effective; whereas, at least one component of the Moroccan program, TIS, appeared highly cost-effective.

Evaluators of Egypt's PSFS project apparently did not see a need to conduct a quantitative cost-benefit analysis. They claimed that project costs far outweighed any benefits the project participants may have received. In contrast, preliminary indications are that Morocco's TIS project is cost-effective. In 1992, TIS operating costs were running 14 percent of export orders generated (Rudel and Belot 1992, 32-34).

Question 5: Do more successful interventions suggest a preferred strategy?

Preliminary findings indicate that Morocco's TIS project may be a worthy model in terms of its ability to generate measurable exports and, in some cases, investment in a relatively short time frame. This facilitative approach is now also used in Egypt and Jordan. By facilitating contacts, TIS links buyers with sellers and potential investment partners. Evidence from CDIE's program assessment confirms that this kind of linkage facilitates the transfer of technical assistance. The foreign buyer or investor provides to the developing country firm much of the needed technical advice to increase competitiveness and facilitate longer term commercial relationships.

TIS is not reactive, but rather selectively chooses its clients, often helping those companies already capable of export to expand to new markets. Transaction oriented, TIS targets specific products and sectors and follows a "deal" through its many stages until completion. Project targets are modest and expectations more realistic.

Question 6: What measures were used for tracking program performance? Were they sufficient?

Measuring export and investment promotion is a complex and difficult task. Firms—beneficiaries and nonbeneficiaries—are often unwilling to divulge what they consider proprietary information. Also, attribution is difficult to quantify, because so many factors influence a company's decision to export or invest. Many of these factors are subjective (e.g., a company official's rating of the "usefulness" of a particular promotional service) or inaccessible (e.g., the person(s) who used the services are often not the same individuals who made the ultimate decision to export or invest, and some of these individuals may have left the company). Also, collecting data on a sectoral and national scale in a way that is useful for measurement of USAID activities may be difficult. In many instances, evaluators of USAID/Egypt and USAID/Morocco project components were not able to measure attribution. Some project indicators were simply ignored; at other times, evaluators concluded it was impossible to quantify USAID impact.

Performance of USAID/Egypt's investment promotion program relied on the following indicators: number of applications for feasibility studies received and approved, number of reconnaissance visits, number of feasibility studies completed, number of staff members trained, and number of investments.[11] Notably absent were the monetary values of investments, as well as the types of investment (i.e., sector). USAID added several other indicators in 1989, including the number of firms assisted in establishing joint ventures or in exporting their products (and total monetary value involved). By 1991, after approximately 10 years, only three investment deals had been consummated. Total values of investments were never documented, and discrepancies exist in project documentation concerning which companies made the investments. Project targets that merely quantified project activities (e.g., feasibility studies completed) were essentially met.

Indicators selected by USAID/Morocco attempted to measure both progress toward reaching project targets, as well as ultimate development impact. Indicators identified in project design for USAID/Morocco's export promotion project included the following: additional exports generated at the national level, a minimum percentage of the nation's exports insured, a specified number of new

[11]These are PSFS indicators since USIPO had no documented targets until 1989.

users (small and medium-sized firms and companies new to exporting), success in obtaining prefinancing credit (total value of this credit is also measured), a specified number of firms obtaining technical assistance, and project beneficiaries lowering costs of production, increasing sales of exports, and expanding to new buyers.

USAID/Morocco defined more clearly the responsibilities for monitoring and tracking project performance in export promotion than seemingly did USAID/Egypt for its investment promotion program. The Morocco Project Paper contained a detailed implementation and evaluation plan, as well as a reporting schedule. Monitoring involved formal and informal meetings between USAID and contractors, status reports, and midterm and final evaluations. USAID/Morocco attempted to measure progress toward project targets, and ultimate development impact. For example, project evaluators looked at data on production, exports, employment, and investment—all grouped by sectors. They did a noteworthy job of attempting to collect and analyze these impact indicators, although some information was not readily available. The data obtained were analyzed for impact at the sectoral and national level as well as at the firm level.

Alternatively, indicators used by USAID/Egypt provided little in the way of measuring development results. The indicators used emphasized tabulating project activities and using these as measures of success or at least of "potential" success. However, specifying how many sector studies were completed, for example, fails to indicate whether those sector studies were of high quality and useful to the private sector. Nor is the number of investments alone an adequate measurement of project impact, unless it is accompanied by more comprehensive data about the investments and how they relate to the overall economy and sector. This might include reporting the monetary values of the investments, the percentage of investments generated by the project as compared to total investments in the country (or sector), and whether the investments occurred in certain sectors. Few of these more rigorous standards were employed in the evaluation of the USAID/Egypt program. Furthermore, final reports failed to report sufficient detail concerning the few investments that were made.

The CDIE assessment finding that USAID must focus on bottom-line impact is relevant to this review (McKean and Fox 1994). CDIE suggests that USAID should link impact indicators directly to project activities and support baseline data collection and tracking systems. USAID/Egypt documentation shows what happens when data collection and tracking are inadequate and when the quantity of project activities is mistaken for project impact—a project can continue to fail to produce meaningful results from activities carried out for more than a decade. The USAID/Morocco experience demonstrates the complexity of data collection and tracking, even in projects that intentionally incorporate a focus on monitoring and evaluation of impact in the project design.

5. LESSONS LEARNED

The review of USAID export and investment promotion efforts in Egypt and Morocco provides a basis for addressing, at least in part, two key questions: Is export and investment promotion assistance worthwhile? Does it merit continued USAID support? Although each country context is different and requires flexible and varying approaches, there are several generally applicable findings and conclusions that emerged from this desk study.

Lesson One

Finding: Egypt's dismal policy environment for both investment and trade was one of the main reasons why USAID interventions failed to promote foreign investment. In contrast, Morocco's significant policy reforms liberalizing trade created an environment in which USAID interventions increased exports at the firm and, in some cases, sectoral level.

Conclusion: The performance of export and investment promotion projects is linked to a country's economic policy.

Lesson Two

Finding: USAID/Morocco's export promotion efforts were strengthened by the Mission's thorough examination of the services provider market that was existing during project design. Lacking a similar examination, USAID/Egypt failed to identify the key constraints to investment.

Conclusion: An examination of the existing services provider market not only tests the validity of project design assumptions, it also identifies the institutional framework through which USAID interventions might be most effective (i.e., public or private sector intermediaries).

Lesson Three

Finding: In both Egypt and Morocco, USAID experience in working through public sector intermediaries was unsatisfactory and projects were redesigned to use private sector intermediaries instead. This desk study found USIPO (in its early years) and CMPE were negatively impacted by their close relationship with the host government bureaucracy. Moreover, IESC and USIPO (in its later years) were considered preferable intermediaries through which to work.

Conclusion: Although evidence is not yet conclusive, USAID's experience working with private intermediaries has been more positive than with public sector institutions.

Lesson Four

Finding: Evaluators found USAID's investment promotion efforts in Egypt were not cost-effective. However, relatively recent USAID export promotion efforts in Morocco through the TIS project appear to be quite cost-effective.

Conclusion: Although difficult, measuring cost-effectiveness of USAID investment and export promotion efforts can be an important component of project monitoring and evaluation.

Lesson Five

Finding and Conclusion: Evaluators of USAID interventions in Morocco identified impact in some sectors and on a firm-specific level, but they were unable to identify a discernible impact at the national level. Evaluators did not measure the national or sectoral impact of USAID/Egypt's program, although project results were found to be minimal. Preliminary indications are that the TIS strategy appears to have great potential for development impact.

Lesson Six

Finding: Export and investment promotion interventions are difficult to measure and evaluate. Data collection and impact measurement through appropriate indicators were insufficient, particularly in the USAID/Egypt program.

Conclusion: USAID project designs that ensure adequate data collection and measurement will produce more accurate and relevant evaluation results. Adequate data collection includes gathering baseline information as well as life-of-project data in a cost-effective manner. Adequate data measurement includes selecting appropriate indicators to measure bottom-line development impact as well as project activities. For an indepth discussion of this issue see *Measuring Costs and Benefits of Export Promotion Projects: Findings From A.I.D. Experience*. A.I.D. Technical Report No. 14.

APPENDIX A

METHODOLOGY

The report, "Export and Investment Promotion in Egypt and Morocco: A Review of USAID Experience," complements the Center for Development Information and Evaluation's (CDIE) worldwide program assessment of U.S. Agency for International Development's (USAID) export and investment promotion efforts. The methodology employed for this desk review is outlined below.

No fieldwork was conducted for this study. Instead, a comprehensive online database search of USAID's Development Information System was used to identify all existing documentation of USAID export and investment promotion projects in the Near East region. Egypt and Morocco were selected as case studies. Although other Near East countries, such as Tunisia and Jordan, have export and investment promotion projects, evaluations of these projects were not available when this study was initiated. Even so, the documentation for a thorough review of USAID's trade and investment program in the Near East region, particularly in Egypt, is far from adequate.

This report synthesizes information available from existing USAID Project Papers and evaluations. All relevant USAID documentation on Egypt and Morocco, including Project Papers and midterm and final evaluations, were reviewed. Findings are primarily based on evaluation results. However, the report does integrate new insights that emerged from a comparative reading of the materials and other relevant literature.

Since the CDIE worldwide assessment of USAID's export and investment activities does not focus on USAID's large Commodity Import Program (CIP), the CIP program was intentionally excluded from this study.

APPENDIX B

BACKGROUND DISCUSSION OF USAID DOCUMENTATION

This appendix is provided to demonstrate the difficulties the Center for Development Information and Evaluation (CDIE) encountered in reviewing documentation for this desk review.

Problems encountered in conducting the review include a dearth of evaluations of USAID's export and investment promotion projects in the Near East, a lack of adequate monitoring and tracking of impact data, and the difficulty in isolating the export and investment promotion component of what is often a much larger, more general private sector program. In the case of Egypt, Project Papers and evaluations failed to include vital information and were found to be inconsistent and difficult to compare with other supposedly related documents.

USAID/Egypt Project Papers contain little analysis to support many of the underlying assumptions on which the projects were designed, often making it difficult to ascertain on what basis assumptions were made. Project planners for Egypt claim their assumptions are based on an earlier study conducted by a team of academics, business people, and consultants. However, these studies proved untraceable through both USAID's Development Information System and the Congressional Research Service.

USAID/Morocco, however, employed a more thorough economic and institutional analysis for making project assumptions. For example, appendixes to the Project Papers provide analyses of the existing "service provider market" conducted prior to project design, and in each case, the Project Paper makes a clear link between what was found in the studies and what was decided in the Project Paper.

In addition, USAID documentation for the USIPO project was inadequate, making analysis difficult. At least three separate project numbers are attributed to USIPO activities (2630101, 2630102, 2630112). However, each number reflects a larger umbrella project. In the case of 2630101 (entitled "Industrial

Production") and 2630102 (entitled "Technical Cooperation and Feasibility Studies Project"), the Project Papers contain nothing about USIPO. In fact, these umbrella projects cover many separate and unique subprojects, ranging from support of private voluntary organizations, science and technology, and infrastructure.

APPENDIX C

PROJECT INFORMATION

U.S. Agency for International Development export and investment promotion activities reviewed in this study are briefly summarized below:

USAID/Egypt

Private Sector Feasibility Studies Project (PSFS)
Project Number: 2630112
Life of Project: 1979-1991
Obligations: $8,000,000
Expenditures[1]: $4,849,000 (Congressional Presentation 1993)

Project Description: Intended to promote U.S. private sector investments and joint ventures in Egypt by producing sectoral studies to identify commercial opportunities, financing feasibility studies and visits by U.S. firms to the country, and finally, strengthening the institutional capacity of the host government to provide promotional services. Begun in 1979, the project was folded into the USIPO project (see below) in 1989, because of problems encountered in working through a public sector entity.

United States Investment Promotion Office (USIPO) Project[2]
Project Numbers: 2630101; 2630102; 2630112
Life of Project: 1979-1992
Expenditures: $4,172,379[3]
Description: Intended to facilitate U.S. private sector investment in Egypt. Existing documentation is limited. Set up as a private sector entity in the early 1980s, USIPO was unsuccessful in achieving any meaningful impact

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[1]Represents actual Economic Support Grant expenditures through FY91.

[2]USIPO was a subproject funded through two separate "umbrella" projects. The first was entitled "Industrial Production" and the second was "Technical Cooperation and Feasibility Studies."

[3]Expenditures are estimated, based on data from the 1992 Project Assistance Completion Report.

and was completely redesigned in 1989 to emphasize export promotion instead of investment promotion.

USAID/Morocco

Private Sector Export Promotion Project (PSEPP)
Project Number: 6080189
Life of Project: 1986-1993
Obligations: $16,900,000
Expenditures: $6,807,000[4] (Congressional Presentation 1993)

Description: Intended to promote exports by the indigenous private sector through a variety of means, including expanding export credit insurance coverage, expanding prefinancing credit to targeted firms, and improving export production and marketing capacity of targeted firms. This multipronged approach was implemented by different intermediaries, both private and public sector. Begun in 1986, the project has produced mixed but generally positive results. A modest investment promotion component was added in 1989.

Table 1 Egypt and Morocco
Trade and Investment Trends, 1980-1992

A. Direct Foreign Investment
(Million 1987 $)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	[illegible]
Total Direct Foreign Investment Inflow											
Egypt	755	947	1,056	1,108	1,401	1,365	1,316	869	936	114	0 2 1
Morocco	124	75	95	53	52	21	1	60	82	154	[illegible] 4 1
U.S. Foreign Investment Inflow*											
Egypt	-10	54	166	227	138	399	-103	-151	-82	39	[illegible]
Morocco	na	0	2	16	2	0	-20	6	-2	10	1

[4]Represents actual Economic Support Grant expenditures through FY91 and estimates through FY93.

*Total U.S. Capital Outflows to U.S. Affiliates in Egypt and Morocco
Source: IBRD Stars and U.S. Department of Commerce

B. Export Performance
(Million 1987 $)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Value of all merchandise exports													
Egypt	4,248	4,097	3,723	3,687	3,450	1,947	2,285	2,037	2,041	2,440	2,281	3,106	2,524
Morocco	3,352	2,941	2,457	2,365	2,387	2,294	2,505	2,807	3,489	3,075	3,738	3,631	3,295
Value of manufactured exports to OECD													
Egypt	423	324	350	334	438	379	388	574	577	686	841	771	na
Morocco	629	511	642	687	752	733	942	1,311	1,541	1,613	2,191	2,114	na

Sources: IMF, International Financial Statistics; and OECD, Foreign Trade
Note: U.S. GDP deflator used to convert to 1987 Dollars

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